

Growing Inclusivity, Addressing Labour Market Shortfalls and Enhancing International Competitiveness: The Singapore Case*

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Presentation Outlines

- **Growing Inclusivity: Globalization drive, worsening income disparity and government behaviors**
- **Enhancing International Competitiveness Through Wages-Productivity-Competitiveness (WPC) Nexus**
- **Addressing labour market mix, counter productivity shortfalls and avoiding low wage-economic underclass trap**

Singapore's Achievements: Joining the league of wealthiest nations: 3rd rank on per capita GDP in 2011

Country	Per Capita GDP (PPP\$)	Rank		Country	Per Capita GDP (PPP\$)	Rank
Qatar	88,559	1		Ireland	38,550	14
Luxembourg	81,383	2		Sweden	38,031	15
Singapore	56,522	3		Kuwait	37,849	16
Norway	52,013	4		Iceland	36,621	17
Brunei	48,892	5		Denmark	36,450	18
United Arab Emirates	48,821	6		Belgium	36,100	19
United States	47,284	7		Germany	36,033	20
Hong Kong	45,736	8		Taiwan, China	35,227	21
Switzerland	41,663	9		United Kingdom	34,920	22
Netherlands	40,765	10		Finland	34,585	23
Australia	39,699	11		France	34,077	24
Austria	39,634	12		Japan	33,805	25
Canada	39,057	13		Korea, South	29,836	26

Source: International Monetary Fund (IMF) data set

Singapore & Hong Kong : GDP Growth, Unemployment Rate and Inflation, 1998-2010*

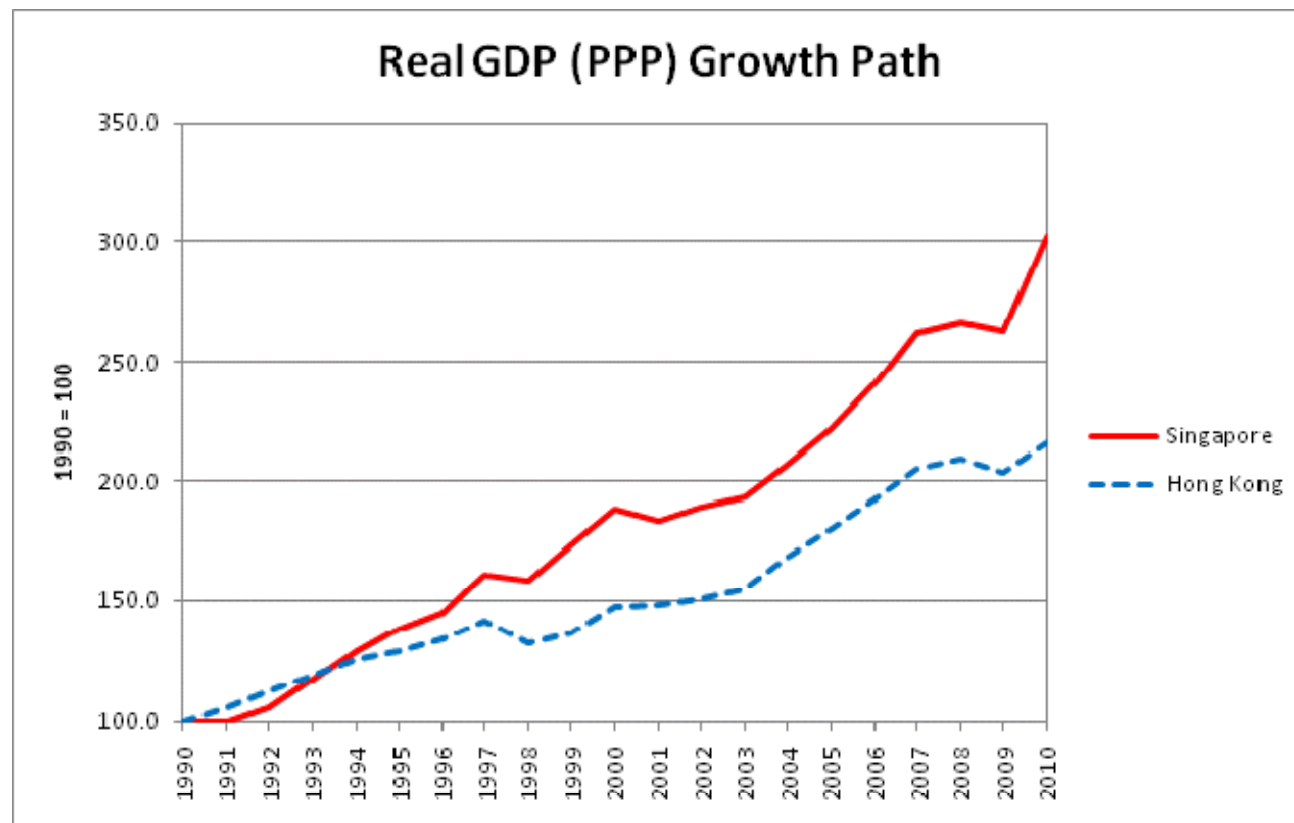
Fiscal year	GDP Growth		Unemployment Rate		Composite CPI Growth	
	Hong Kong	Singapore	Hong Kong	Singapore	Hong Kong	Singapore
1998	-6.8%	-1.4%	2.5%	2.5%	2.8%	-0.3%
1999	1.6%	7.2%	2.9%	2.8%	-4.0%	0%
2000	7.0%	10.1%	2.8%	2.7%	-3.8%	1.3%
2001	-0.2%	-2.4%	2.5%	2.7%	-1.6%	1.0%
2002	1.4%	4.2%	3.0%	3.6%	-3.0%	-0.4%
2003	3.2%	3.8%	3.5%	4.0%	-2.6%	0.5%
2004	7.6%	9.2%	3.3%	3.4%	-0.4%	1.7%
2005	6.6%	7.6%	2.7%	3.1%	1.0%	0.5%
2006	6.3%	8.7%	2.4%	2.7%	2.0%	1.0%
2007	5.3%	8.8%	2.2%	2.1%	2.0%	2.1%
2008	1.4%	1.5%	1.9%	2.2%	4.3%	6.6%
2009	-2.7%	-0.8%	2.3%	3.0%	0.5%	0.6%
2010	4.5%	14.5%	2.1%	2.2%	2.3%	2.8%

GDP Growth	1987-1997	1998-2008	GDP size	1987	1997	2007	2010 (2017@)
Hong Kong	6.0% p.a.	3.0% p.a.	Hong Kong	US\$50 billion	US\$176 billion	US\$208 billion	US\$225 billion (US\$299 billion)
Singapore	9.3% p.a.	5.5% p.a.	Singapore	US\$21 billion	US\$95 billion	US\$164 billion	US\$223 billion (US\$346 billion)
			(SNG / HK)	42%	54%	86%	99% (116%)

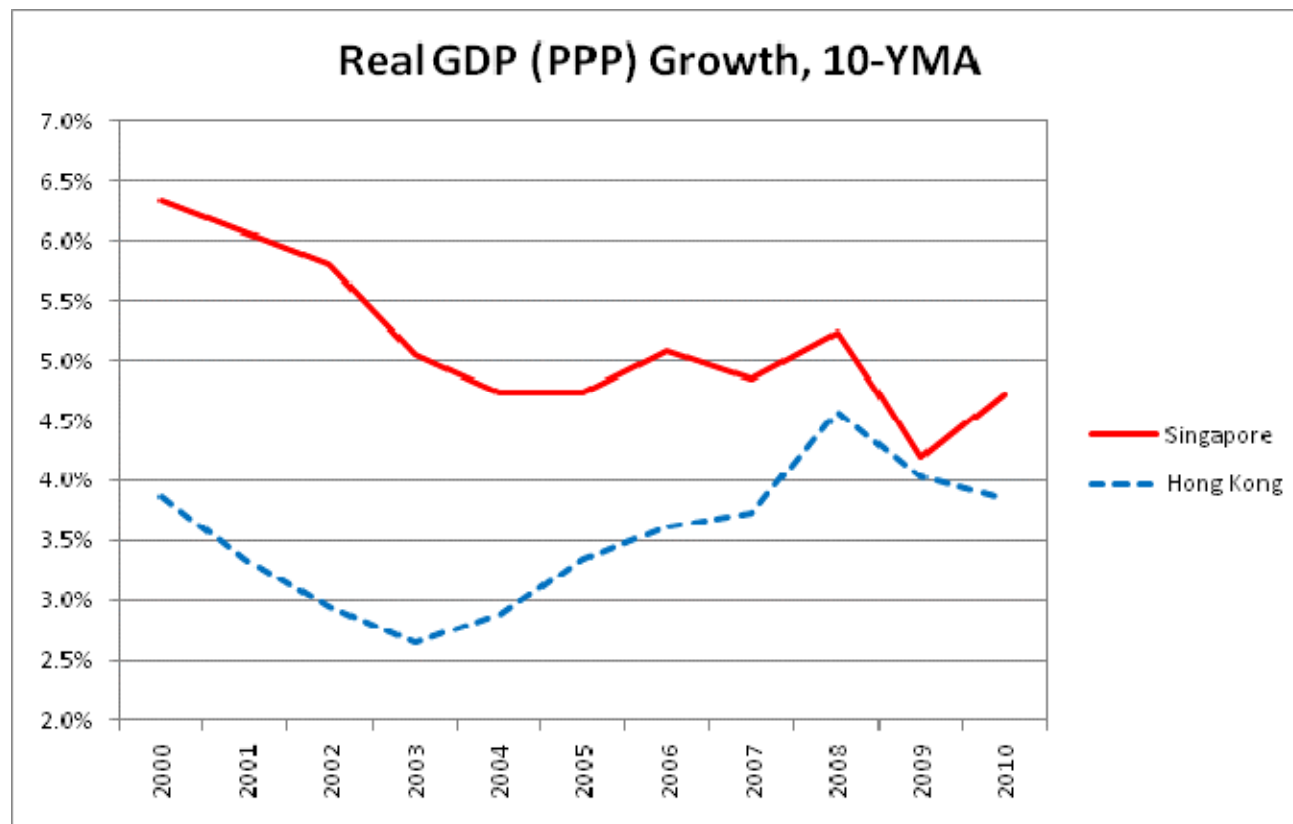
@ Potential GDP Growth Rate (projected by Asian Research Unit, Lee Kuan Yew School of Public Policy, NUS):
1998-2025 Hong Kong: 4.5% p.a.; Singapore: 5.5% p.a. 2010 per capita GDP: Singapore US\$32,744; Hong Kong US\$29,800

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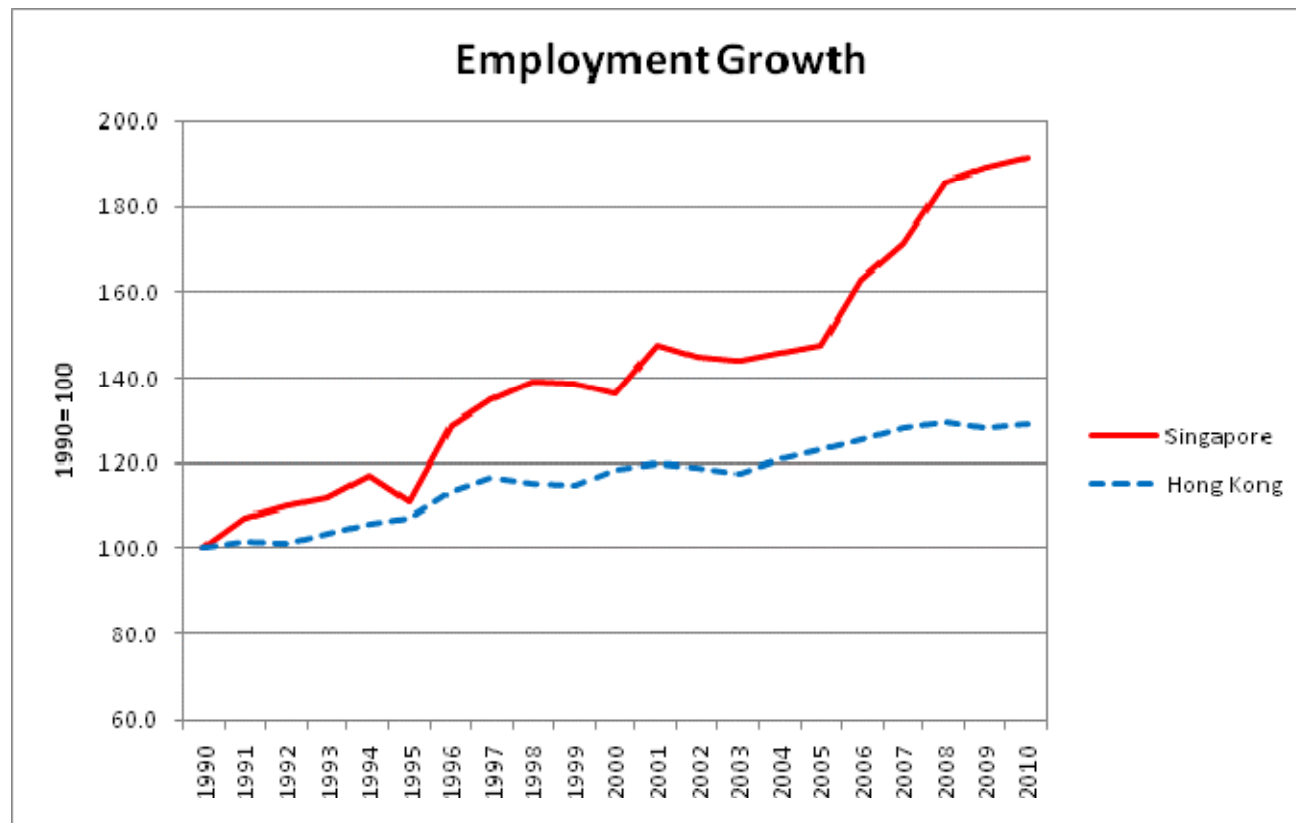
Comparative Outstanding Economic Achievements: Hong Kong versus Singapore



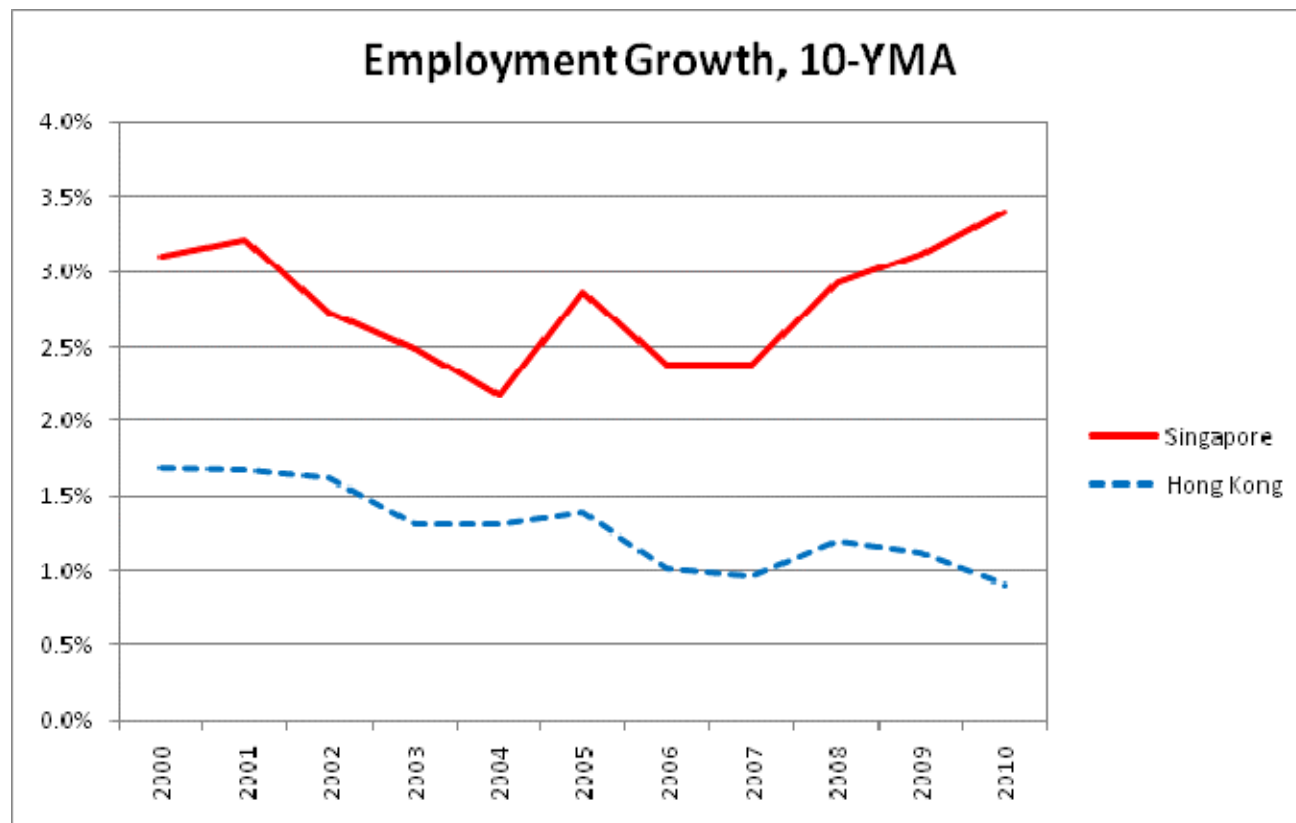
Challenges: Sustainability of the growth model



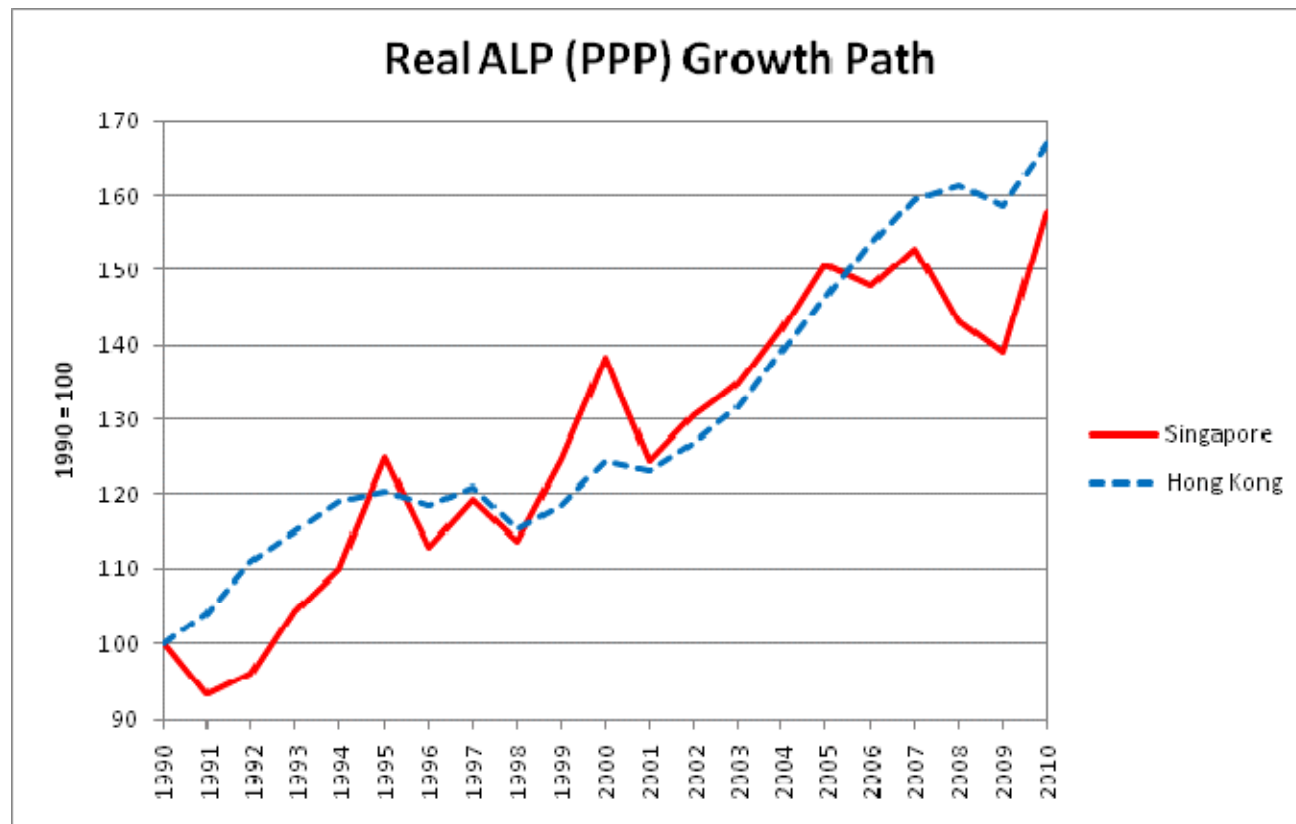
Challenges: Sustainability of the growth model



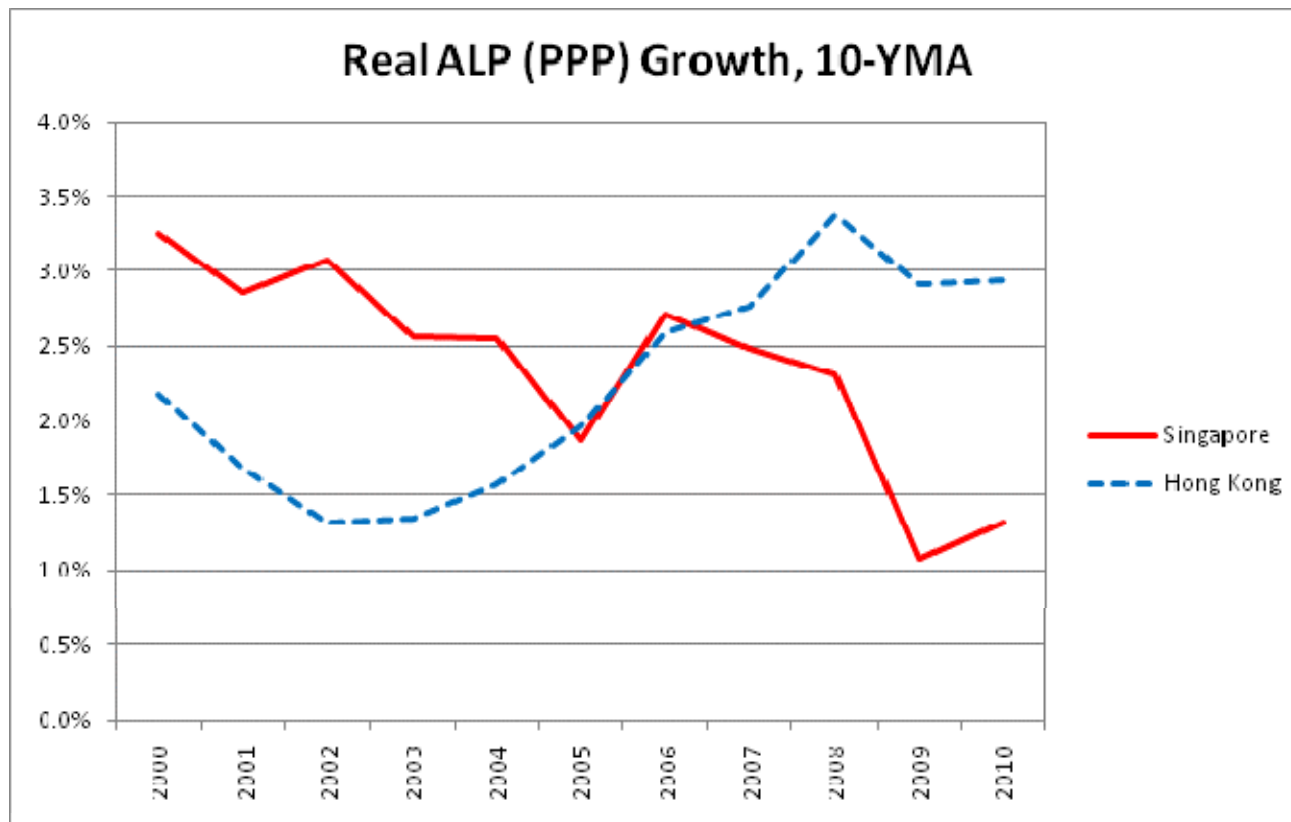
Challenges: Sustainability of the growth model



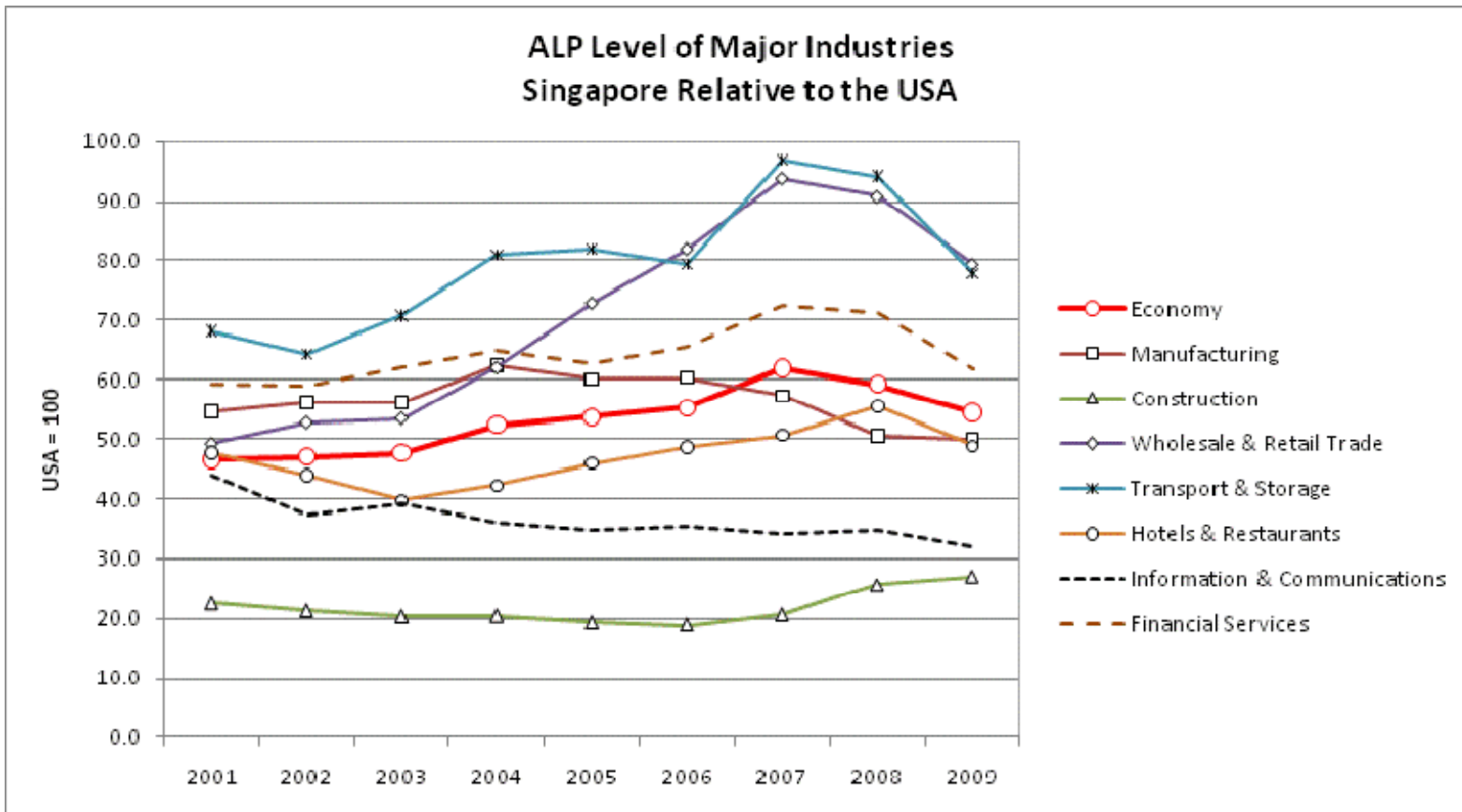
Challenges: Productivity growth and prosperity



Challenges: Productivity growth and prosperity



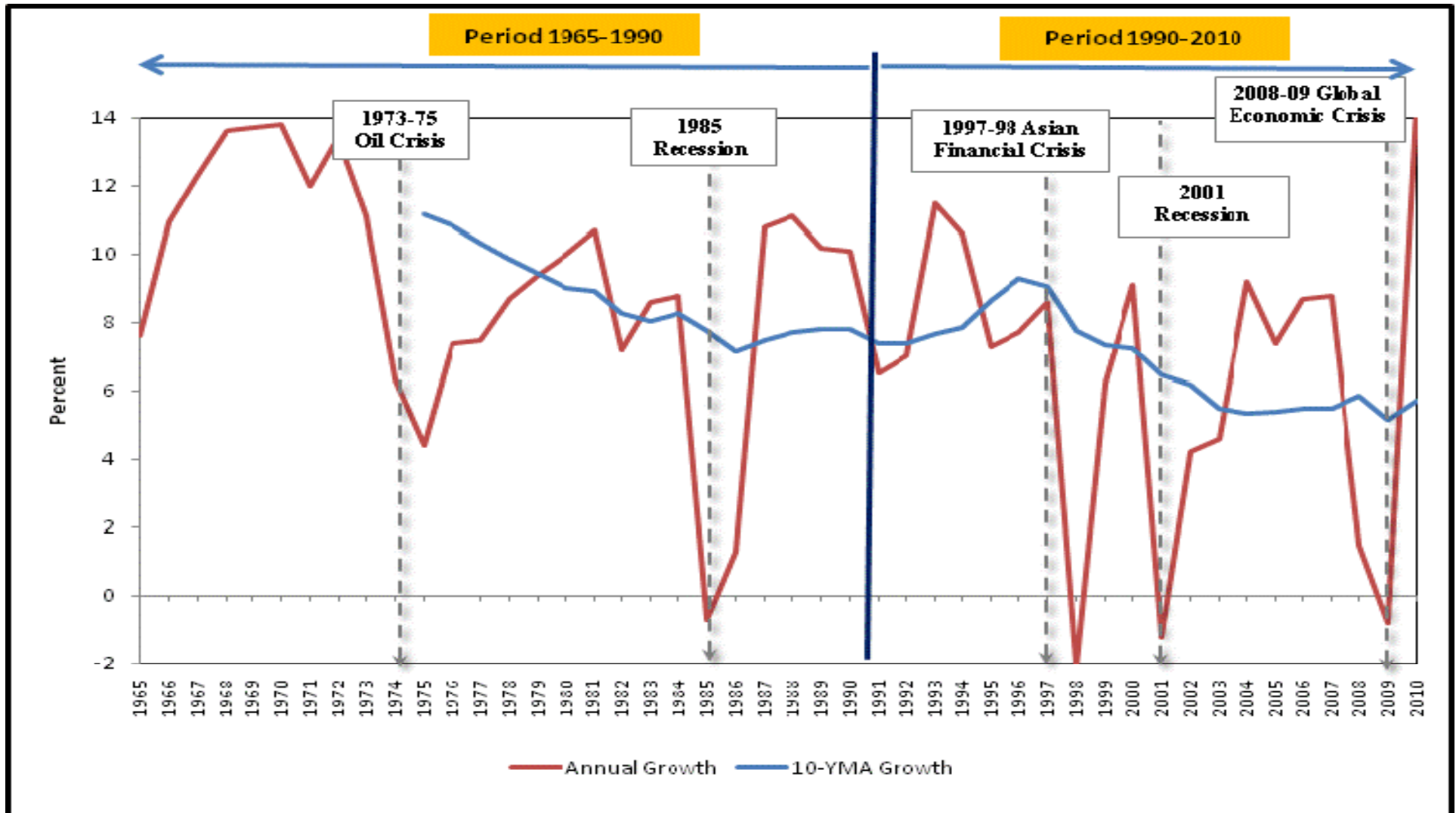
Challenges: Labor productivity remain low relative to the US



The 2009 Economic Strategies Committee (ESC) - A Review of the Proposal

- Seizing Growth Opportunities
- Developing a Vibrant SME Sector and Globally Competitive Companies
- Attracting and Rooting MNCs and global SMEs
- Growing Knowledge Capital
- Making Singapore A Leading Global City
- Fostering Inclusive Growth
- Ensuring Energy Resilience and Sustainable Growth
- Maximising Value from Land as a Scarce Resource

Singapore's Report Card: Resilient economy with active government interventions which resulted in first world standard of living but worsening income disparity.....



Worsening income disparity, the plight of low wage Singaporeans and the extent of economic underclass

- According to official statistics: As of 2012, there are 440,000 Singaporeans who earn less than \$1700 per month. The median gross income of Workfare Income Supplement (WIS) recipients in 2008 and 2009 is \$808 and \$822 per month respectively with the qualifying income ceiling known as the “living wage” set at \$1500 per month in 2009 by the government. WIS thus could be reformed with wage subsidy under a fixed graduation date to ensure it is productivity-driven by working out terms and conditions with employers.
- Singapore’s Gini Coefficient hit the all time high of 0.489 in 2007. When it crosses 0.5, it will be a cause for social and political concerns. According to Department of Statistics (DOS), the average Gini Coefficient for 2000-2010 stands at 0.44, which was pushed back to the level in 2000.
- Such outcomes were achieved through special transfers to annual government budget amounting to \$2.5 billion per year between 2000 and 2012, which was largely funded through net investment income contributions to annual budget amounting to \$3.9 billion per year over the same period.

Enhancing International Competitiveness through Wages-Productivity-Competitiveness (WPC) Nexus

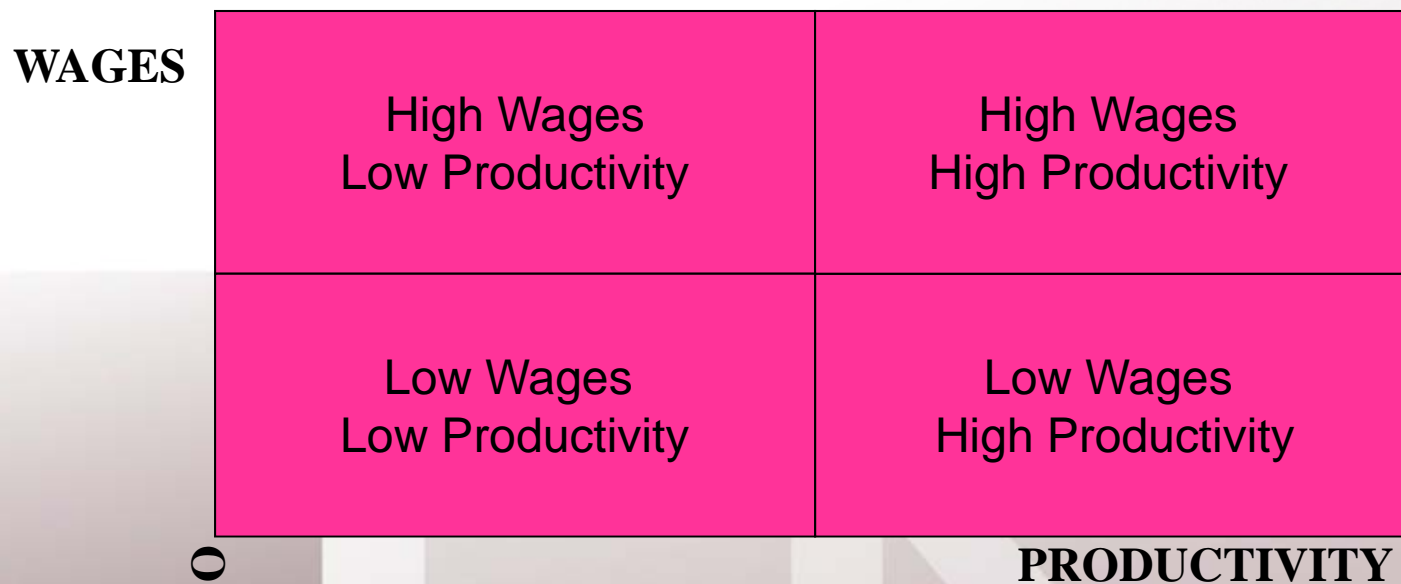
Three-year wage reform proposals by Professor Lim Chong Yah (LCY) essentially is a sequence of shock therapy to let wage growth jump ahead of the productivity growth as follows:

- (a) His main proposal is for those Singaporeans earning below \$1,500 a month to get pay rises of 15 percent in the first year, a further 15 percent in the second year and 20 percent in the third year of the wage restructuring.
- (b) Over the same period, his plan also calls for a wage freeze for those earning above \$15,000 a month.
- (c) Over the same period, those Singaporeans' earning falling in between would get an annual pay rise of around 4 per cent to 5 per cent .

Alternative approach suggested by Secretary-General Lim Swee Say (LSS) of the National Trade Union Congress (NTUC) is to continue to push on skill-upgrading, skill matching and job contents redesigning , while the National Wages Council (NWC) since 1986 has continued to maintain that wage growth is to lag behind productivity growth.

Wages-Productivity-Competitiveness (WPC) Nexus:

- It is the common aspiration of all Singaporeans to work steadily from lower left quadrant exhibiting low wage-low productivity stalemate towards upper right quadrant of high wage-high productivity ideal of inclusive growth
- To achieve the common aspiration, the thrust of *LCY Proposals* amounts to moving by way of the current lower left quadrant to upper left quadrant
- To attain the common aspiration, the core of the *LSS Approach* amounts to moving by way of the current lower left quadrant to lower right quadrant



Enhancing International Competitiveness through Wages-Productivity-Competitiveness (WPC) Nexus

- The serious problem currently confronting many of the European economies is a classic case of **high wage-low productivity trap**. In a competitive globalize world, this is not sustainable as wages are sticky downward with union leaders who are largely wage and not job maximization.
- The current **low-wage-low productivity dilemma** is a clear demonstration of labor market wage suppression caused by abundant supply of cheap foreign workforce in a number of industries with minimal incentive for *employers* to drive productivity .
- Employees* are naturally reluctant or unable to put in their best performance given the poor effort-remuneration wage structure as productive local workforce tend to shun away from those industries because *stagnated low wages* are unmatched by the *rising cost of living*.
- Hence Workfare Income Supplement (WIS) Scheme became necessary especially to Singaporeans who are now in their late 40s and early 50s where opportunities for post-secondary education who are faced with skill mismatched and skill obsolescence.
- Rapid globalization for Singapore further aggravated the low skill-low productivity labor market paralysis with *skill-mismatched* and *rapid skill-obsolescence*.

The facilitative role of the government and NTUC

- However, under the NTUC-NWC's **constant skill upgrading -wage growth lags behind productivity approach**, up-skill tends to take longer time and *low-wage-low productivity dilemma* is real given the abundant regional supply of foreign workers.
- It is thus paramount that the government must continue to pro-actively play the facilitative role of addressing labor market failure through the annual budgetary measures in the form of special transfers which have intensified recently as manifested in the 2012 Budget Statements. Government could support more in a targeted manner without wasting precious financial resources, avoid well-intended policies that could cause market distortion resulting in unintended consequences
- Resist the populist pressure of being pushed towards the slippery road of welfare state which is least sustainable in the longer-run, as we often argued, by a small and resource-poor economy such as Singapore.
- We propose to establish a WPC Taskforce with the terms of reference to
 - (i) Evaluate the social profile and constraints of the low wage Singaporeans and the emerging economic underclass.
 - (ii) Better understand industry-specific labor issues, business difficulties and market requirements.
 - (iii) Explain and educate the public at large on the urgency of productivity drive, competition and work discipline.

Five concrete broad principles to mitigate income disparity and labor market failure

1. Rationalizing foreign workforce to correct labor market structure, improved labor market efficiency and raising wage / gross domestic product ratio.
2. Pro-Active and targeted management in skill-matching, skill-upgrading, job skill contents re-designing and comprehensive education investment in indigenous manpower to equip with modern skill-in-demand.
3. Changing fundamental philosophy of public policies in pursuit of optimal, inclusive, balance, green and clean or non-corrupt growth as a small open economy.
4. Redefining key performance indicators, strengthening policy mechanisms and financial budget allocations of government agencies.
5. Continue to sharpen Singapore's international competitive edge, plugging further into globalization in trade and finance and maintain first world standard of living.

Projections of GDP and ALP growth, 2009-2019: Model

$$\Delta \ln y = \left(\frac{1 - \bar{v}_L}{\bar{v}_L} \right) \Delta \ln K_Q + \left(\frac{1 - \bar{v}_L}{\bar{v}_L} \right) \tau + \Delta \ln L_Q + \left(\frac{1}{\bar{v}_L} \right) \Delta \ln A$$

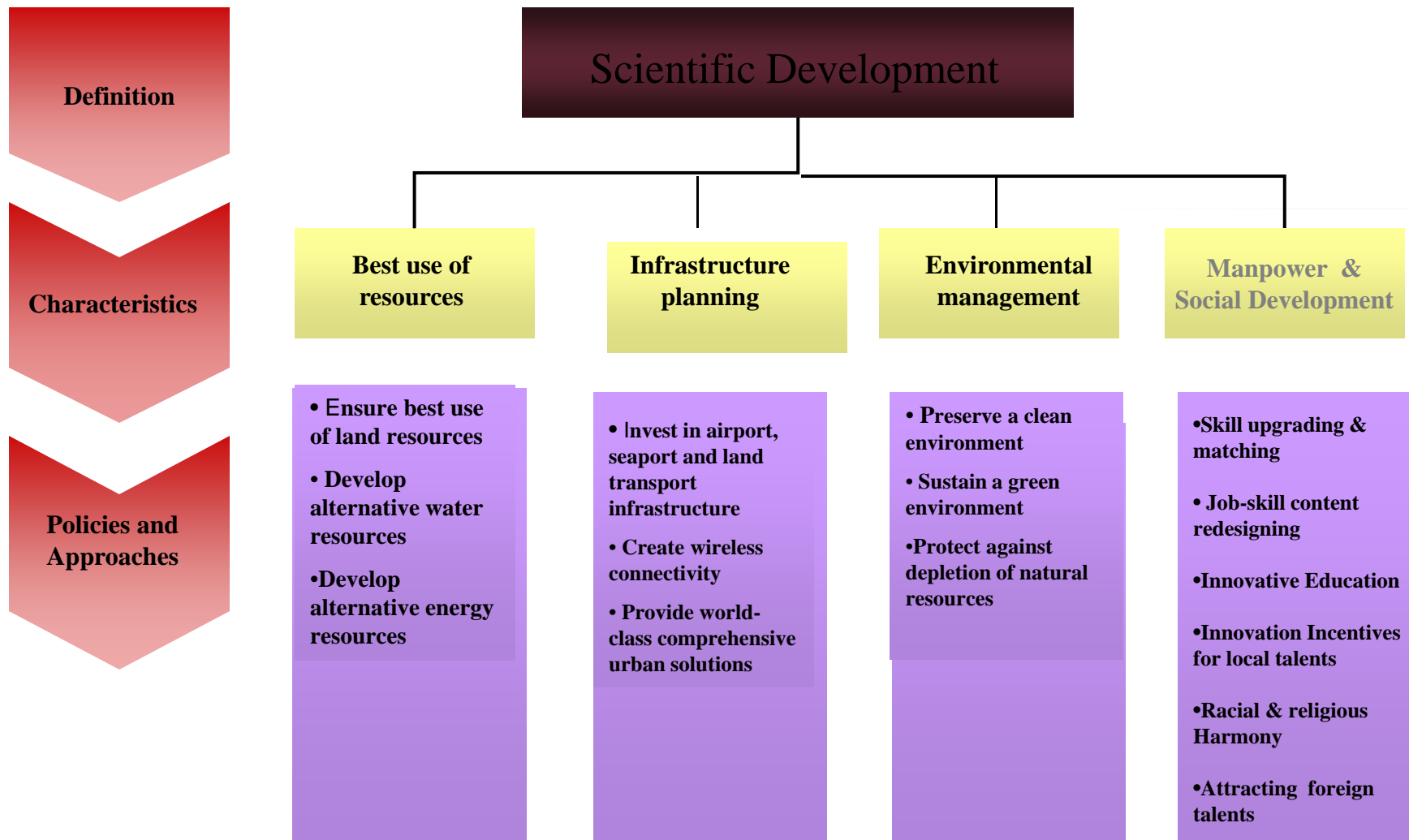
Projections of GDP and ALP Growth, 2009-2019: Assumptions and Results

	Actual 1998-2008	Pessimistic scenario	Base Case	Optimistic Scenario	Remarks
Labor share	0.532	0.532 [^]	0.532 [^]	0.532 [^]	[^] assumed
Labor quality growth (%)	1.24	1.00 [^]	1.24 [^]	1.50 [^]	[^] assumed
Capital accumulation enhancement	0.08	0.08 [^]	0.25 [^]	0.50 [^]	[^] assumed
Capital quality growth (%)	0.29	0.18 [^]	0.29 [^]	0.40 [^]	[^] assumed
Total factor productivity growth (%)	0.51	0.30 [^]	0.51 [^]	0.70 [^]	[^] assumed
Employment growth (%)	2.92	1.00	1.50	2.00	[^] assumed
Productivity growth (%)	2.52	1.79*	2.67*	3.61*	*projected 21
GDP growth (%)	5.45	2.79*	4.17*	5.61*	*projected

Inclusive Growth and Growing Inclusivity



Road Map for Inclusive Growth



- **Thank you for your attention!**